

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4188-02
Bill No.: SB 785
Subject: Public Service Commission; Telecommunications
Type: Original
Date: February 1, 2010

Bill Summary: This proposal requires certain telephone companies to reduce the intrastate exchange access fees and dedicates funding in the Universal Service Fund to replace lost revenue.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$134,411)	\$0	\$0
Total Estimated Net Effect on General Revenue Fund	(\$134,411)	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Public Service Commission Fund	(\$450,000)	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	(\$450,000)	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	2 FTE	0 FTE	0 FTE
Total Estimated Net Effect on FTE	2 FTE	0 FTE	0 FTE

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the proposal. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Economic Development - Public Service Commission (PSC)** assume this proposed legislation will result in the need to hire a consultant to provide assistance in determining company-specific high cost support. Specific duties and associated costs include:

- Review and analyze cost studies prepared by companies - \$250,000

The contractor should ensure a cost study complies with the forward-looking economic cost model adopted by the FCC. If a company proposes to use a different forward-looking economic cost model than adopted by the FCC, then the contractor should analyze the reasonableness of the cost study. Potentially a separate case may be necessary for each company's cost study; therefore, the contractor should be prepared to file multiple rounds of testimony including oral testimony at a hearing. The consultant would assist in hearing preparation and the filing of briefs, if necessary.

\$50,000 per cost study - Five companies will submit cost studies. $\$50,000 \times 5 = \$250,000$

- Establish statewide average forward-looking cost per line - \$50,000

The contractor should develop a cost study that identifies this cost. The contractor should be prepared to file multiple rounds of testimony including oral testimony at a hearing and assist hearing preparation and the filing of briefs, if necessary.

ASSUMPTION (continued)

- *Calculate and defend a benchmark rate for residential basic local telecommunications service - \$50,000*

The contractor should calculate a benchmark rate for residential basic local telecommunications service. The contractor should be prepared to file multiple rounds of testimony including oral testimony at a hearing and assist in hearing preparation and the filing of briefs, if necessary.

- Ensure initial support payments are properly calculated - \$25,000

This cost is calculated at \$5,000 per company x 5 companies = \$25,000.

The consultant would also provide assistance in expanding the Missouri Universal Service Fund (USF) to provide high cost support, resulting in the following costs:

- Develop proper assessment level for Missouri USF - \$25,000
- Assist in a rule-making ensuring 4 CSR 240-31 complies with the proposed legislation - \$25,000
- Assist in modifying Missouri USF administrator's contract to ensure the administrator's duties fully address expanded duties associated with the proposal - \$25,000

The Missouri USF is funded through a surcharge on telecommunications and Voice over Internet Protocol retail customer bills. As such, the fund and activities related to the fund are not state budgeted items. Activities related to the Missouri Universal Service Fund are completed by the Commission, the Universal Service Board comprised of the 5 Commissioners and the Public Counsel, the staff of the Commission and the staff of the Office of Public Counsel. Currently, Commission activities and Board activities involving the Commissioners and its staff are funded through the PSC assessment. As written, the proposed legislation does not include any provision to allow the PSC to be reimbursed from the Missouri Universal Service Fund for USF-related activities performed by appropriated Staff and the Commission's consultant(s).

Although this proposal does not duplicate any other program, there is a federal high cost support program that ensures consumers in all regions of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and the rates paid in urban areas by providing high cost support to telecommunications carriers. The fund includes a component which provides support to carriers for the reduction in revenues as a

ASSUMPTION (continued)

result of INTERstate access reform.

Officials from the **Department of Economic Development - Office of Public Counsel (OPC)** assume this proposed legislation would create significant new duties and responsibilities which include, but may not be limited to, participating in proceedings before the PSC to establish a benchmark local service rate based on cost studies for each incumbent local exchange telecommunications company. This will require that OPC review and run the federal cost model, develop and review company specific inputs and/or review and evaluate alternative cost models proposed by incumbent carriers.

This proposal will also require OPC participation in proceedings related to the review and potential modification to Commission's rules including the rules related to supported essential services, carrier applications for universal service support and operation of the Universal Service Board, and certification of competitive facilities-based Competitive Local Exchange Carriers.

In addition, the proposal will also require review and modification to Missouri Universal Service Fund administration. OPC will be required to participate in the development and review of needed modifications to the operation of the Universal Service Fund, the duties of the fund administrator and auditor, determination of the assessment rate and monitoring of the fund balance.

Oversight assumes that, according to the proposed legislation, the formal proceedings outlined in the proposal will be opened by October 1, 2010 and shall be concluded within 180 days. Further review is to be conducted every five years. For fiscal note purposes only, **Oversight** assumes additional staffing will be needed for FY 2011 only.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Cost - Department of Economic</u>			
<u>Development - Office of Public Counsel</u>			
Personal Services (2 FTE)	(\$78,939)	\$0	\$0
Fringe Benefits	(\$38,388)	\$0	\$0
Expense and Equipment	(\$17,084)	\$0	\$0
	<u>(\$134,411)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$134,411)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FTE	2 FTE	0 FTE	0 FTE
PUBLIC SERVICE COMMISSION FUND			
<u>Cost - Consulting fees</u>	<u>(\$450,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON PUBLIC SERVICE COMMISSION FUND	<u>(\$450,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

The proposed legislation will result in an increase in the per line USF surcharge for all retail customers, including small businesses.

FISCAL DESCRIPTION

This proposed legislation requires the Public Service Commission (PSC) to create within the Universal Service Fund (USF) a dedicated funding mechanism for high-cost service provision to be called the Missouri High-Cost Support Mechanism. Funds in the mechanism shall be used to offset the loss of revenue that will result from the proposal's required reduction of intrastate exchange access charges for certain incumbent local exchange providers. The PSC must determine the amount of funding necessary to be directed into the mechanism.

The proposal requires voice over Internet protocol (VOIP) and commercial mobile radio service providers to pay assessments into the USF. Existing law specifies the method and amount by which a PSC rate-regulated phone company can recover the cost of the USF assessments from its customers. The proposed legislation removes the language specifying the method and amount and simply allows such companies to recover the full amount of the assessment from their retail customers. The proposal adds two criteria for a company to be eligible for high-cost support through the USF: 1) The company is not charging a rate for essential services that is higher than the "benchmark" rate to be set by the PSC; and 2) The company is in compliance with the proposal's high-cost support mechanism provisions.

The PSC must hold a formal proceeding to begin no later than October 1, 2010, in which it must determine which telecommunications companies are eligible to receive high-cost support payments from the mechanism.

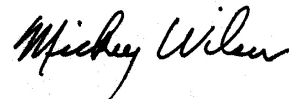
The proposed legislation requires incumbent local exchange providers with more than 25,000 access lines in Missouri on January 1, 2010, to eliminate the carrier common line portion of their intrastate exchange access rates by the time the PSC gets the mechanism established, or 30 days after the PSC's proceeding closes, whichever is later. These companies are authorized to increase their residential basic local rates in amounts specified in the proposal. Payments through the high-cost support mechanism to these companies must be calculated as specified.

The PSC shall review the need for the high-cost support mechanism not more than once every five years.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Public Service Commission
Office of Public Counsel
Office of Secretary of State
Administrative Rules Division

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 1, 2010